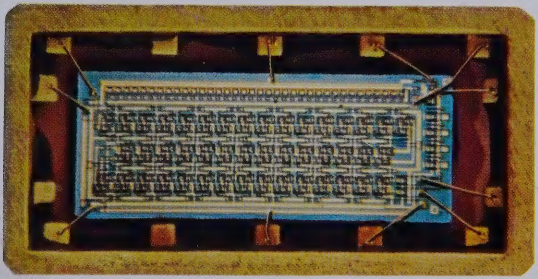
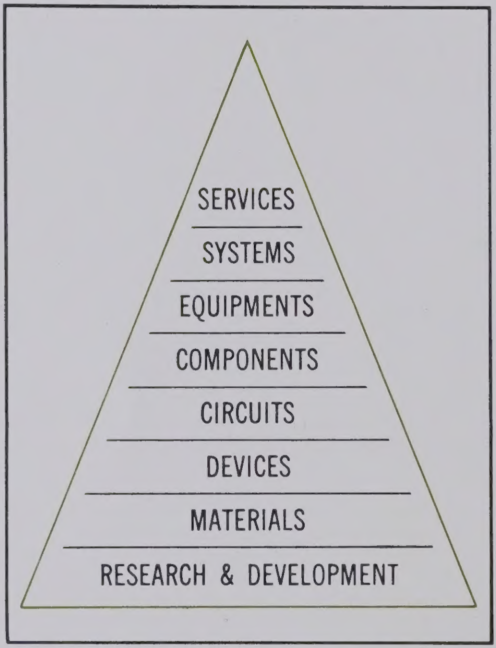
AR24

1965 annual report

TEXAS
INSTRUMENTS
INCORPORATED





The Businesses of Texas Instruments

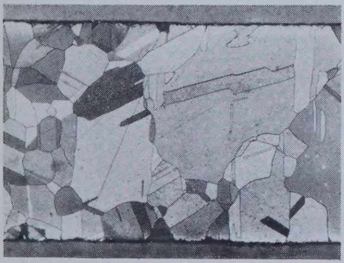
As a technologically oriented international organization, TI supplies products and services to many world markets. From research and development in areas fundamental to its businesses, and from work with basic materials at the structure-of-matter level, its scope extends through the production of electronic components and circuits to complete equipments and systems, and to technical services which make use of these systems. TI clads metals to perform functions not possible with individual materials. It produces high-purity silicon used in making transistors and other semiconductor devices; it manufactures transistors and semiconductor integrated circuits*, electrical and thermal control devices and circuits, complete systems including airport traffic control radars and airborne electronic subsystems and systems for defense, and instrument systems and test equipment for government and industry. TI applies earth sciences in the search for oil, gas and other natural resources, and in such fields as oceanography and nuclear blast detection. It distributes its own products and the products of others to industrial users.*

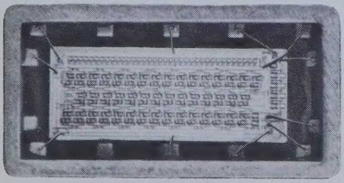
**See cover*

The information contained in this report is not given in connection with any sale or offer of, or solicitation of an offer to buy, any securities of the company. This report is not to be deemed a part of any proxy-soliciting material furnished to shareholders.

Table of Contents

The Businesses of Texas Instruments inside front cover
Consolidated Financial Summary 2
Financial Highlights 3
Total Technical Effort 3
Operations Review 5
    Materials 5
    Components and Circuits 6
    Equipments and Systems 9
    Services 12
Personnel 15
Proposed Stock Split 15
Product and Service Pictorial 16
Ten-Year Review 20
Consolidated Financial Statements 22
Directors and Officers 26
Annual Shareholders Meeting inside back cover





The two cover photographs, taken through a microscope, represent the materials-to-systems technological orientation of the company. At top is a cross-section, photographed under polarized light, of the clad metal material used in the new U.S. quarters and dimes. The center is copper; the outside layers are a copper-nickel alloy. These layers are bound together at the molecular level.

Shown on cover 125 times actual size, is a new semiconductor integrated circuit which will be used in both industrial and military equipments and systems. It contains 352 interconnected electronic components. TI simultaneously produces more than 70 of these tiny, highly complex electronic circuits on a single one-inch silicon wafer.

Consolidated Financial Summary

	1965	1964
Net sales	$436,369,101	$327,578,903
Income before taxes and other provisions	46,273,342	34,856,800
Net income	24,839,366	18,041,051
Net income per share of common stock outstanding	4.92	3.59
Dividends on common stock	5,045,956	5,264,408*
Current assets	186,067,064	123,499,885
Current liabilities	88,418,029	65,626,454
Working capital	97,649,035	57,873,431
Property, plant and equipment (less accumulated depreciation and amortization)	81,900,567	57,009,383
Long-term debt (excludes current portion in current liabilities)	48,707,526	3,937,500
Shareholders' equity	132,617,776	111,293,366
Book value per share of common stock outstanding	26.27	22.15
Number of shares of common stock outstanding at end of year	5,048,263	5,024,215
Number of employees at end of year	34,519	24,551
Number of common shareholders at end of year	16,566	15,867

**Includes $.25 per share declared in 1964 and paid in 1965*

To the Shareholders of Texas Instruments Incorporated:

Financial Highlights

In 1965, TI achieved new highs in sales billed and earnings. Sales billed of $436,369,101 increased 33% and earnings after taxes of $24,839,366 (or $4.92 per common share) were 37% higher than 1964. Total backlog at year end was $218 million, compared to $148 million for 1964.

The strong financial performance resulted from contributions throughout the company. Management planning and control techniques improved and contributed importantly to 1965's success. Production capacity increased for all divisions and additional increases are in progress as TI continues its largest facilities expansion program.

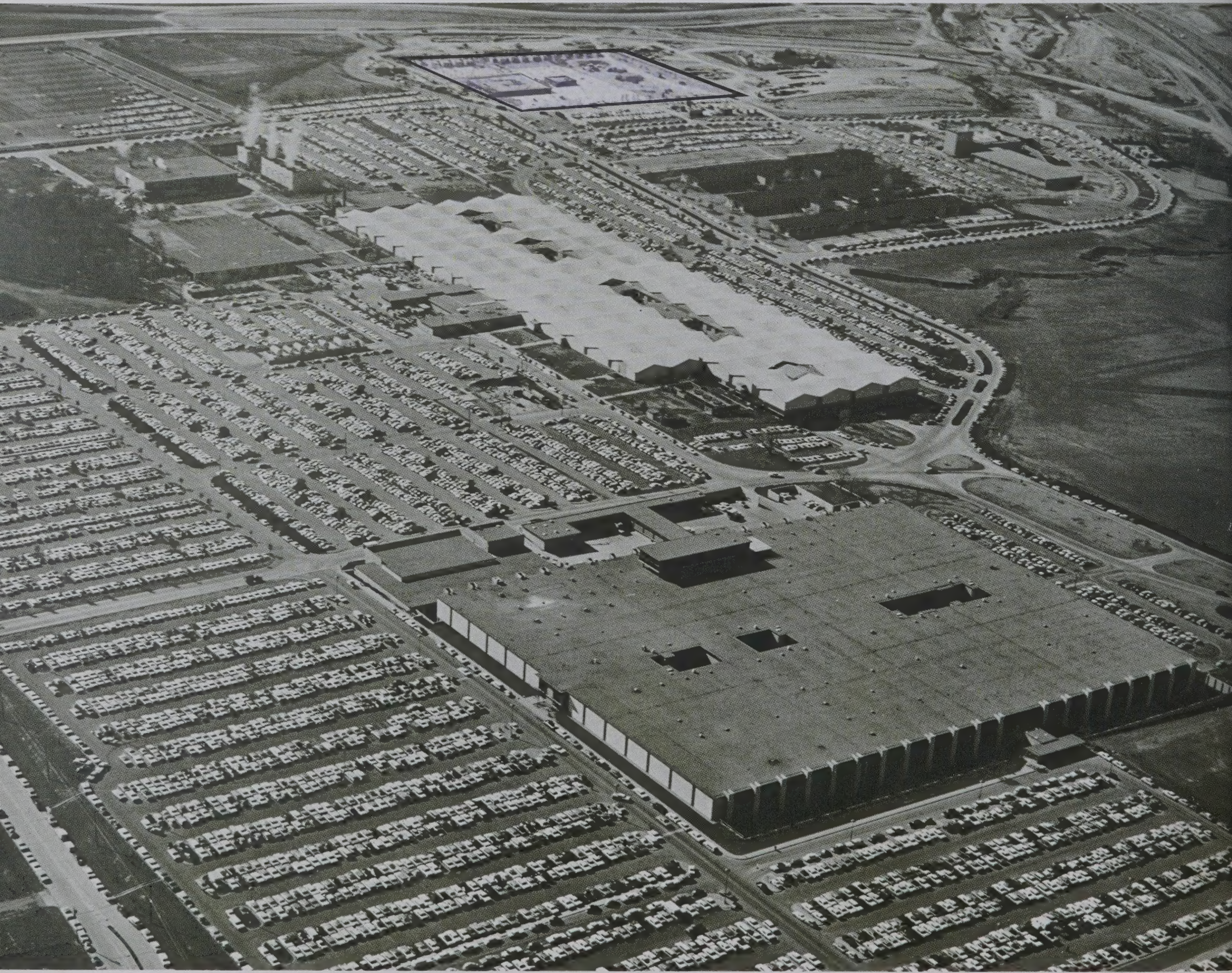
In 1965, approximately $44 million were spent for additions to plant and equipment and 1966 expenditures in these areas are expected to approximate $70 million. To finance this growth, internally generated funds were supplemented in November with the successful sale of $50 million 4.80% sinking fund debentures due 1990.

Total Technical Effort

Much of 1965's success resulted from research, development and engineering efforts begun in prior years. In 1965, expenditures for total technical effort were $62.6 million with approximately half supported by outside contracts, chiefly U.S. government. These expenses compare to $49 million in 1964, of which 55% was supported by outside contracts.

In addition to TI's Central Research Laboratories, each division has its own research and development activities. Total technical effort is closely interconnected with the long-range objectives of the company. Long-range exploratory programs are directed toward continued technical excellence in TI's future businesses. Several examples of current research and development programs in the Central Research Laboratories and the operating divisions appear in the following Operations Review.

Largest single Texas Instruments plant site is on the North Central Expressway in Dallas. New construction in 1965 increased this facility to 1,800,000 sq ft of laboratory, manufacturing and office space. Construction was begun on another semiconductor building (at top).



Operations Review

In 1965, demand continued high for most of the established products of the company. For some newer products such as clad metal materials and semiconductor integrated circuits (which contain scores of components interconnected to perform several tasks in a single tiny bit of silicon), demand increased more rapidly than expected. This required acceleration of plans for increased production capacity. Throughout the year, TI's operations broadened to include additional products and services for industry, government and consumer use on a wider geographic scale.

Materials

During 1965, TI doubled its production capacity in Dallas for refined and processed silicon semiconductor materials used in making transistors and related devices, and was again the leading supplier of these materials to the semiconductor manufacturing industry.

The "materials system concept" utilized in clad metals was vividly illustrated with award to the Materials & Controls division of a $30-million contract to supply materials for minting the new U.S. quarters and dimes. Immediate production requirements of this contract, plus increased demand for clad metals with specially designed properties for household appliances, made necessary plant and equipment expansion beyond that already underway in 1964. A 95,000-sq ft addition for clad metal production was completed in Attleboro, Mass., and construction was also begun on an additional 35,000 sq ft. New, heavy rolling mills were installed and placed in operation.

New, heavy rolling mills installed at Attleboro, Mass., increased clad metal production capacity.

Gutters, downspouts and flashing on the Long Island home above are all made from a materials system — copper clad to an aluminum base. This same material is being used in curtain walls for the company's new plants in Sherman and Dallas.

Clad materials went into special shielding for underground communications cables and into a corrosion resistant cable for oceanographic use. Clad materials were introduced in the automotive industry for radiator fins and other uses, and were sold to building materials distributors. In the printing industry, use of the wrap-around printing plates, introduced in 1964, was broadened.

Materials research programs include development of materials for high-density rechargeable batteries for household appliances and other such uses; materials with special properties for automotive and trim applications; and heat exchangers to utilize waste energy from fluorescent light fixtures for heating and cooling stores, offices and factories. In a continuing research program, readily available materials such as kerosene, gasoline or natural gas are used to operate fuel cells to produce electricity directly without rotating machinery. Compact working models were shown in 1965.

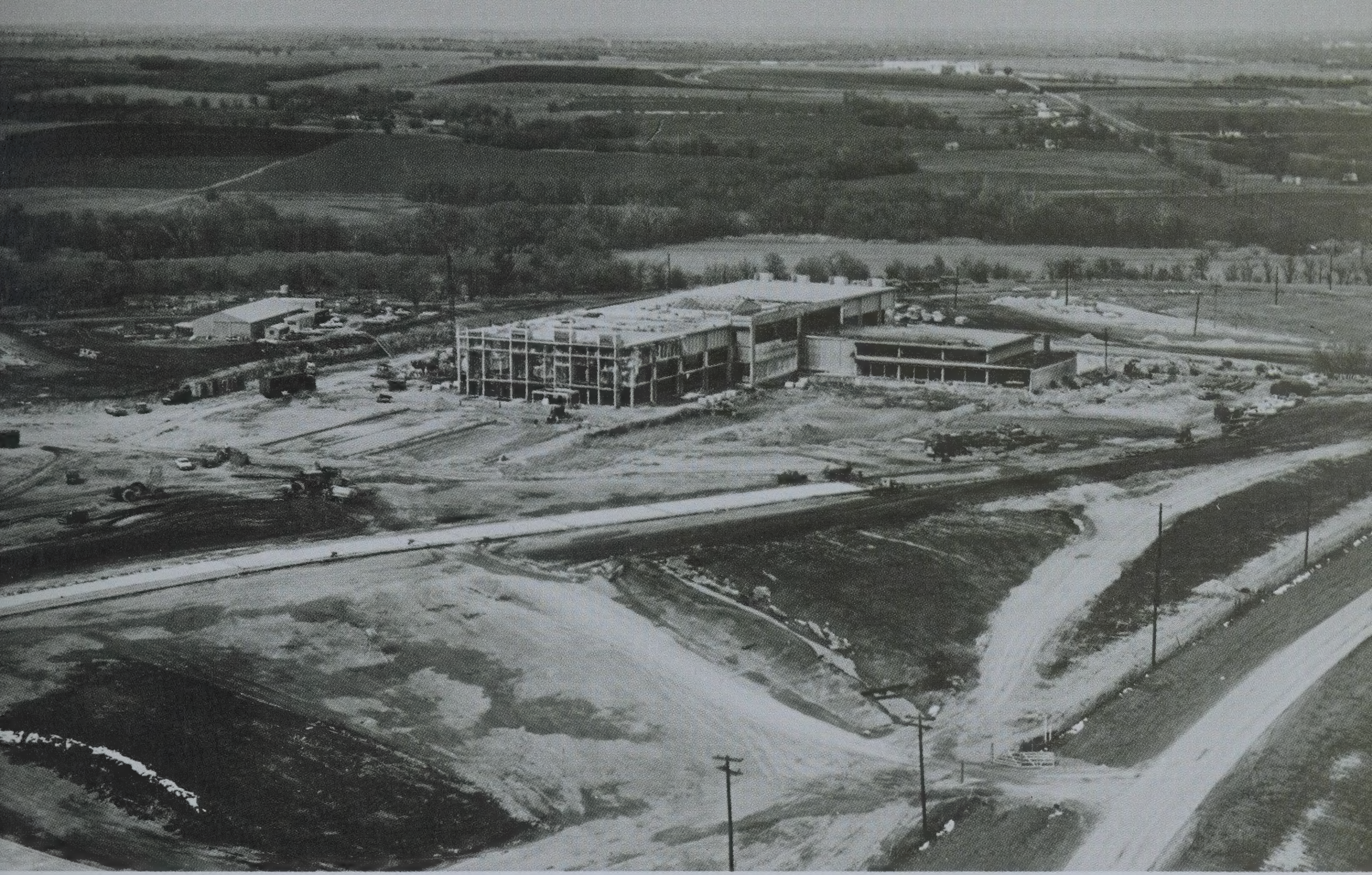
Components and Circuits

Texas Instruments unit and dollar sales of semiconductors — devices, components and semiconductor integrated circuits — again set new records in 1965. Although worldwide semiconductor markets continued to be highly competitive, demand was strong across all of the company's semiconductor product lines.

The largest unit and dollar volume for the company's semiconductors in 1965 continued to be in computers and other data processing equipment, used by both industry and the government.

TI's plastic-packaged transistors were sold in increased numbers for use in phonographs, auto radios, appliances, and toys. The company's transistors were used in TV receivers made by three television manufacturers. Other growing applications in 1965 were in home music systems and communications equipment.

Increase in requirements for tactical warfare ordnance stepped up 1965 shipments of



Construction of a 128,000-sq ft semiconductor plant in Sherman, Texas, was started in 1965.

semiconductors for applications in guidance of bombs, torpedoes and tactical missiles. The company supplies the major portion of the discrete semiconductor devices and semiconductor integrated circuits for the Minuteman II ICBM and for F-111 aircraft.

During the year, the Semiconductor-Components division introduced 36 new semiconductor integrated circuits designed for the industrial market, and production capacity for integrated circuits was increased four-fold over 1964. Increasingly complex semiconductor integrated circuits, which through their unification of many components and interconnections can greatly simplify manufacturing and reliability problems, are undergoing continual and rapid development.

The continuing program in infrared research is now developing a new family of semiconductor devices which can emit and detect both visible light and infrared radiation. In addition to present applications in computers for punched card reading, they

Solid-state circuitry began to appear in the television industry in 1965. Transistors replace all tubes except picture tube in this 12-inch portable set.

Texas Instruments transistors are the heart of the amplifier circuits in this stereophonic tape player.

This numerically controlled horizontal boring machine makes use of solid-state electronic controls to bring new capabilities and economies to complex machining.

make possible the substitution of an optical for an electrical connection in a circuit, thus eliminating many troublesome interconnection problems.

In Dallas, the Semiconductor building was enlarged by 110,000 sq ft and construction was started on an additional 500,000-sq ft semiconductor manufacturing, laboratory and office facility. During the year, the company completed a 16,000-sq ft addition to the semiconductor plant in Nice, France, and purchased a building for semiconductor manufacturing in Freising, Germany. A 700-acre tract of land was purchased at Sherman, Texas, 50 miles north of Dallas, and construction began on a semiconductor plant on that site.

Sales of TI thermal, electrical and electronic controls products increased in 1965. The company's thermal controls had wider use in home heating and air-conditioning units. Complete control circuits, combining materials and electronics technologies, went

TI is making electrical and thermostatic controls at this new 81,000-sq ft plant at Aversa, in Southern Italy. The building's flexible, three-level, modular design is the same as that used in recent construction in the United States, Great Britain and France.

into automatic defrosting and ice-making refrigerators, moisture-sensing clothes driers, and automatic exposure cameras.

The line of KLIXON® circuit breakers, thermostats and switches sold in greater numbers to the commercial and private aircraft industry. Two major space programs, the Lunar Excursion Module and the manned Apollo moon exploration project, contributed to a rapid growth of precision electrical control sales in 1965.

The company completed construction of an 81,000-sq ft electrical and thermostatic controls plant in Aversa, Italy, and an electrical controls plant in Central Lake, Michigan. Additions were made to the controls plant in Almelo, Holland.

Equipments and Systems

The company's production of equipments and systems for government requirements and for industrial use was stepped up markedly during the year. The Apparatus division,

TI-Holland makes a thermal overheat protector for this hair dryer sold in the European market. The device regulates motor and heater temperatures and the amount of air flow.

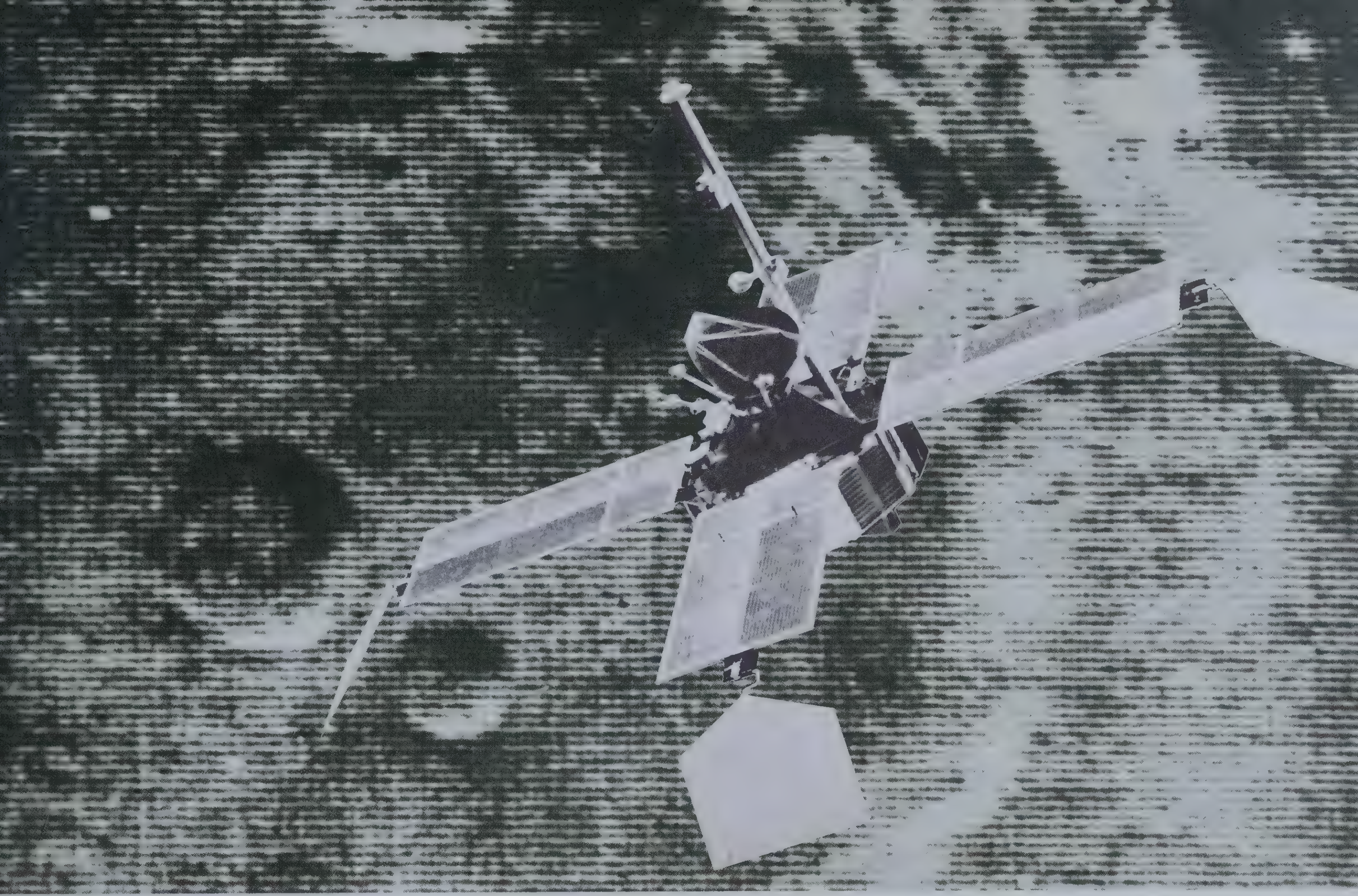
The company received volume production orders for Shrike missile guidance, control and airframe systems.

which has been a career supplier of military and related equipment for over 20 years, accounted for the bulk of this production. It established new record levels in airborne electronics, tactical warfare systems and industrial instrumentation.

A contract for continued research and development work on the Shrike tactical missile was awarded to the company in 1965. Shrike subsystem production orders brought TI's total for the program to $25 million.

The company's work in terrain-following radar — started in 1958 with company-funded effort — in 1965 resulted in multimillion dollar production contracts to deliver radars for tactical and reconnaissance aircraft. Requirements for TI's infrared mapping systems in aerial reconnaissance increased, and experimental models of a new forward-looking infrared system were flown.

In space exploration, TI equipment for guidance, control and data encoding contributed to success of the Mariner IV flight past

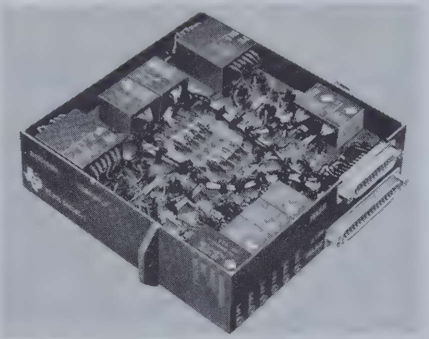


When NASA's Mariner IV flew by Mars in mid-1965, sending back photos of the planet's surface, TI equipment controlled the stabilizing gyroscope and the tape recorder, and converted all scientific, engineering and photographic data into binary "bits" for radio transmission. Mariner contained several thousand of the company's high-reliability semiconductor devices.

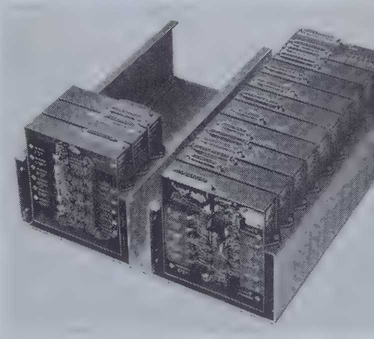
Mars. The company's metastable helium magnetometer measured interplanetary magnetic fields throughout the journey. Signal conditioners were supplied for the Titan II Gemini launch vehicle and guidance programmers for Titan II and Delta vehicles.

The Apparatus division's volume in established industrial instrumentation products reached new highs in 1965. A large quantity of the company's new strip chart recorder was ordered for use by the National Aeronautics and Space Administration. Instruments manufacture for the European market was started at the plant in Nice, France.

New products introduced during the year included a high-speed system for testing integrated circuits. Advanced models of digital seismic equipment went into service in the geophysical exploration operations of the company. This equipment also was sold to petroleum companies and to geophysical exploration contractors.

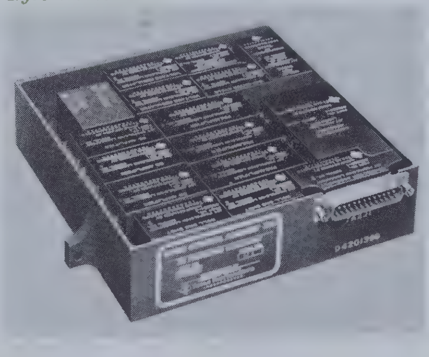


Recorder Electronics

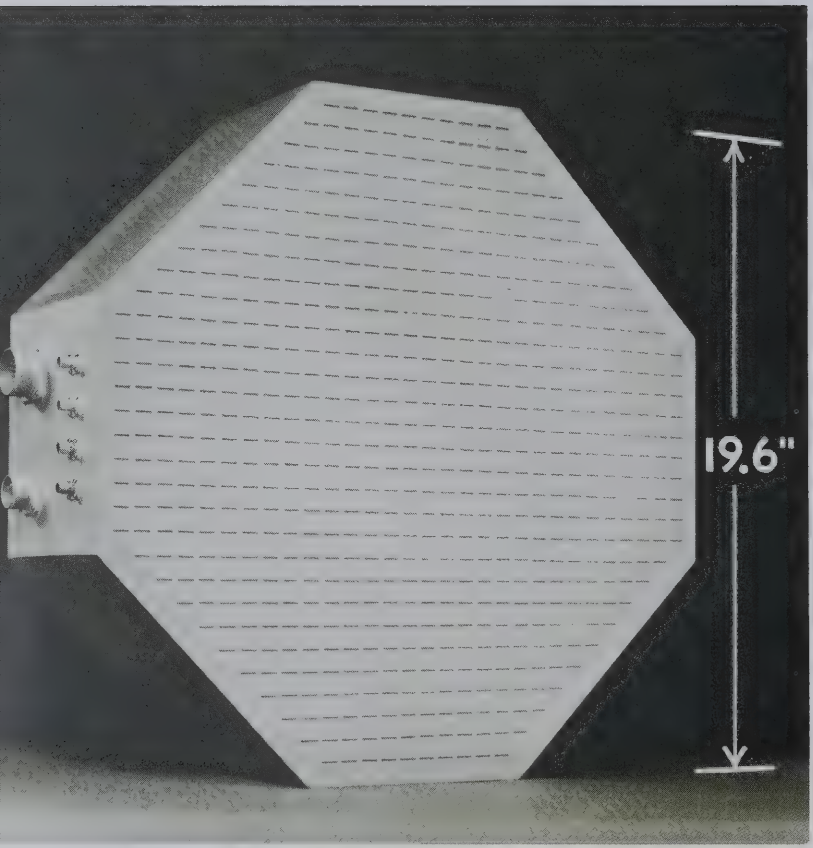


Data Encoder

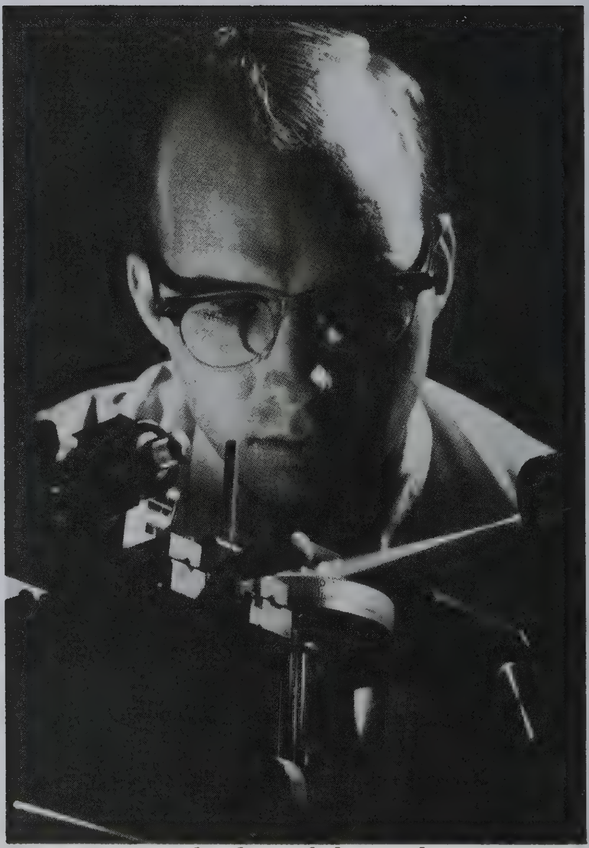
Gyro Electronics



Magnetometer



This new microelectronic radar system Texas Instruments is developing for the U.S. Air Force scans electronically, eliminating moving parts. Each of the hundreds of squares on its face will be a separate transmitter-receiver module.



Experimenting with coherent light from laser sources, TI is developing methods of projecting high-brightness, high-resolution displays on large screens.

The Science Services division delivered production quantities of a lightweight intrusion warning system to the U.S. Marine Corps for use in Viet Nam. The system uses seismic principles to detect footsteps of possible infiltrators. TI also completed an advanced oceanographic survey system for the Navy and installed it aboard a naval research vessel.

As part of its continuing work in the detection and identification of underground nuclear explosions, the company delivered advanced models of its ocean-bottom seismic recording system and built and delivered special digital data processing systems for seismological studies.

Technology in microelectronics at TI has now extended from the integration of circuit components to include complete electronic functional blocks. These enable the realization of new concepts in equipments and systems. In radar, TI is developing a revolutionary system in microelectronic form. It eliminates all moving parts such as scanning antennas and replaces power driven mechanical motions with electronic scanning. It has great potential for enhancing radar performance capabilities. Work on this development is under a contract with the Air Force Avionics Laboratory, Research and Technology Division, Air Force Systems Command.

TI's work in data display has developed a laser display system which can have wide applications for both government and industry requirements. This new system uses an intense, sharply defined laser beam to produce a large-scale image for presentation of military information or industrial data.

Services

Service operations of the company expanded significantly in 1965.

Especially designed and built for seismic exploration, the M/V Cecil H. Green *brought total number of TI-owned vessels to six.*

TI's improved methods of seismic exploration, announced in 1964, continued to have significant effect upon the entire petroleum exploration industry in 1965. Sales of geophysical exploration services in both land and marine areas reached new highs. The company's exploration parties began operations in France, Germany and Ethiopia for the first time. Field units conducted extensive operations in the North Sea, off the coast of Australia, in U.S. and Canadian waters, and in other marine areas. TI purchased two exploration vessels in 1965, bringing total company-owned vessels to six. An additional 48 vessels were chartered during the year.

The use of advanced display systems and new data processing techniques in geophysical and geological studies is included in TI research directed at further development of exploration services. They will assist in the examination of digitally recorded surface and subsurface information, stored on tapes and

In 1965, three new digital seismic data processing centers — at Calgary, London and Houston — were added to the three already operating at the beginning of the year. (Photo taken with special wide-angle lens.)

Specially instrumented for oceanographic research, the R/V Arctic Seal *is one of two vessels TI is using in extensive surveys for the U.S. Navy.*

A Geophoto Services, Inc. photo-interpreter sketches topographical and geological information revealed by aerial reconnaissance.

in computers, and permit geophysicists to improve their interpretation of deeply buried geological formations.

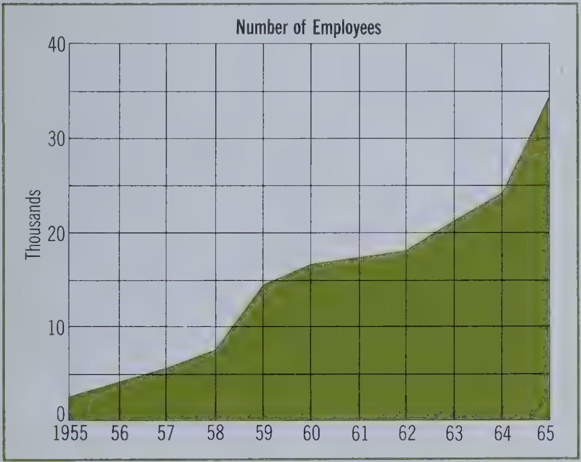
Texas Instruments expanded its application of earth sciences under government contract with start of a major oceanographic survey for the U.S. Navy in the Atlantic Ocean and related sea areas. In Project VELA UNIFORM, it received further contracts for seismological work to distinguish between underground nuclear explosions and earthquakes occurring at great distances.

In June, Geophoto Services, Inc., of Denver, and its subsidiary, Geophoto Services, Ltd., which provides services in Canada and Australia, became wholly owned subsidiaries of Texas Instruments. Now a part of the Science Services division, Geophoto supplies photogeological interpretation, mapping and related services to the petroleum and mining industries and to government programs.

For the company's operations in distribution of electronic and industrial supplies, 1965 was a year of especially rapid progress. It now distributes TI electronic products and the electronic, electrical and industrial products of a large number of other manufacturers from a broad geographic base. International distribution operations, started in Stuttgart in 1964, were added in London, Milan and Paris. New U.S. branches were opened in New York and Los Angeles; they joined existing offices in Dallas, Tulsa, Kansas City, Houston, and Boston. Name of the activity was changed to Texas Instruments Supply Company during the year.

Personnel

Total employment increased by year end to approximately 35,000 men and women whose skills, motivation and interest contributed in very large measure to TI's 1965 success. Training programs assisted new employees to achieve proficiency in special tasks in manufacturing and other operations at a rapid rate. Employee relations are excellent and turnover is well below industry averages.



At year end, TI ranked among America's 100 largest industrial employers. Requirements for many more new employees will continue in 1966 and shareholders are encouraged to refer qualified applicants.

Proposed Stock Split

At a meeting held February 9, 1966, the board of directors of Texas Instruments proposed a 2-for-1 split of its common stock and expressed an intention to increase the dividend rate in June 1966. At the annual meeting on April 20, shareholders will vote on the proposed split and increase in the number of authorized common shares from 8,000,000 to 12,500,000. There will be no change in the $1.00 par value. It is expected that the record date for the proposed split will be April 29 and that certificates for the additional shares will be issued about May 23.

In the event shareholders act favorably upon the proposed split, the board intends to increase the quarterly dividend at its June meeting to 15¢ a share on the split shares, beginning with the payment in July 1966. On an annual basis, this would be the equivalent of $1.20 a share on the present shares compared to the existing annual rate of $1.00 a share.

We appreciate the continued support and confidence of our shareholders and employees, which have enabled the company to achieve its high-ranking position in the extremely technological and diversified business activities it conducts on a worldwide basis.

JE Jonsson PE Haggerty

J. E. Jonsson
Chairman of the Board
Dallas, Texas

P. E. Haggerty
President
February 28, 1966

We regret to report the death in 1965 of Emory G. Ackerman. He made many valued contributions to the company as a director for more than 11 years following TI's merger with Intercontinental Rubber Company. Recognition of his important services has been officially incorporated in the company's records.

Materials / Components / Circuits / Equipments / Systems / Services

Consumer

TI Products and Services in 1965 Went to These End Markets

Industrial

Government

Key Diagram of Gatefold Photographs

End Product	TI Products
1. RCA Victor stereo phonograph	Transistors, diodes
2. U.S. coins	Cupronickel clad on copper center for U.S. quarters and dimes
3. Polaroid Land camera	Electronic exposure control circuit
4. Home appliances	Silicon controlled rectifiers, motor protectors, thermostats, thermostat metal, contacts, control plugs, stainless steel clad on aluminum, moisture sensing and control circuit for dryer
5. Ford automobile	Transistors and diodes for stereo tape player; clad metal in radio, transmission, manifold, heater, cigarette lighter, gauges, lights, carburetor choke coil, horn, turn signals, voltage regulator, switches, circuit breakers, contacts, connectors, terminals
6. NuTone built-in stereo-intercom system	Transistors
7. Sears iron	Stainless steel clad on aluminum sole plate
8. Western Electric telephone	Connector terminals, copper clad on steel wire, material for contacts
9. Zenith hearing aid	Semiconductor integrated circuit
10. Cop-R-Lum building materials	Copper clad on aluminum for gutters, downspouts
11. TI component and circuit tester	Complete system
12. TI geophysical exploration	Complete service, including specialized instruments and data handling equipment
13. Xerox 2400	Transistors, thermostats
14. TI digital data field system	Complete system
15. White truck	Copper clad on aluminum for radiator fins, motor protector for air conditioner, thermal circuit breakers (plus items listed for automobile)
16. TI strip chart recorder	Complete system
17. Tyler supermarket freezer	Hermetic compressor protectors
18. IBM System/360 computer	Transistors, diodes, photo sensor arrays, rectifiers, thermal and magnetic circuit breakers
19. Grumman Lunar Excursion Module	Hermetically sealed switches, semiconductor integrated circuits, transistors, thermostats, thermistors, switches, pressure switches
20. Polaris IRBM	Electro-optic alignment devices, semiconductor integrated circuits, transistors, diodes, rectifiers, resistors, thermostats, thermistors
21. LTV A-7A Corsair II	Radar subsystem, transistors, diodes, rectifiers, thermostats, thermistors, switches, thermal circuit breakers
22. Atlas-Agena rocket booster	Data handling, guidance programming subsystem, transistors, diodes, rectifiers, thermostats, thermistors, switches, pressure switches
23. Airport surveillance radar	Complete system
24. McDonnell RF-4C Phantom II	Radar subsystem, infrared reconnaissance subsystem, transistors, diodes, rectifiers, thermostats, thermistors, switches, thermal circuit breakers
25. Oceanographic survey	Complete shipboard survey system, technical personnel
26. Boeing/NASA Lunar Orbiter	Radiation measurement subsystem, semiconductor integrated circuits, transistors
27. General Dynamics F-111A	Radar subsystem, semiconductor integrated circuits, transistors, diodes, rectifiers, thermostats, thermistors, switches
28. Minuteman II ICBM	Semiconductor integrated circuits for guidance and checkout systems, electro-optic alignment devices, transistors, diodes, rectifiers, light sensors, thermostats, thermistors, switches

Ten-Year Review

TEXAS INSTRUMENTS INCORPORATED

IN THOUSANDS OF DOLLARS

Operations	1965	1964	1963
Net sales	$ 436,369	$ 327,579	$ 276,477
Income before provisions for income taxes, redeterminations and renegotiation	46,273	34,857	25,087
Provisions for income taxes, redeterminations and renegotiation	21,434	16,816	12,948
Net income	24,839	18,041	12,139
Earnings per share of common stock†	4.92	3.59	2.41
Cash dividends paid per share of common stock†	1.00	.80	.64
Financial Condition			
Total current assets	$ 186,067	$ 123,500	$ 105,967
Total current liabilities	88,418	65,627	50,985
Working capital	97,649	57,873	54,982
Property, plant and equipment at cost	141,707	107,635	93,957
Accumulated depreciation and amortization	59,806	50,626	45,840
Property, plant and equipment (net)	81,901	57,009	48,117
Other noncurrent assets	2,858	348	362
	182,408	115,230	103,461
Long-term debt, less current portion	48,708	3,937	5,700
Deferred incentive compensation	1,082	—	—
Shareholders' equity	$ 132,618	$ 111,293	$ 97,761
Shares of common stock outstanding at year end†	5,048,263	5,024,215	4,993,760

*Operations of Metals & Controls Corporation are included for the first time in 1959, the year it merged into TI, as a "pooling of interests."

AND SUBSIDIARIES

(Except earnings and dividends per share which are in dollars) **YEARS ENDED DECEMBER 31**

1962	1961	1960	1959*	1958	1957	1956
$ 240,693	$ 233,223	$ 232,713	$ 193,213	$ 91,954	$ 67,339	$ 45,699
16,381	19,892	29,435	28,855	12,936	7,464	4,260
7,824	10,446	13,947	14,712	6,935	3,699	1,911
8,557	9,446	15,488	14,143	6,001	3,765	2,349
1.71	1.89	3.13	2.87	1.47	.89	.57
.48	—	—	—	—	—	—
$ 90,263	$ 82,479	$ 72,351	$ 64,842	$ 36,970	$ 22,264	$ 17,247
37,216	36,280	35,197	37,266	18,900	11,076	7,992
53,047	46,199	37,154	27,576	18,070	11,188	9,255
81,651	78,736	73,676	60,806	26,773	22,659	15,165
39,017	33,699	27,646	20,083	10,281	7,550	5,552
42,634	45,037	46,030	40,723	16,492	15,109	9,613
433	453	285	429	329	343	428
96,114	91,689	83,469	68,728	34,891	26,640	19,296
7,463	9,225	10,988	12,000	9,250	7,000	3,250
—	—	—	—	—	—	—
$ 88,651	$ 82,464	$ 72,481	$ 56,728	$ 25,641	$ 19,640	$ 16,046
4,935,297	4,930,718	4,905,925	4,893,412	4,071,235	4,071,235	3,760,343

†Adjusted for 1963 and previous years for 25% stock distribution in 1963. Earnings per share are based on shares outstanding at each year end as adjusted and are computed after preferred dividends in 1956-57 and 1959-63. (There was no preferred stock outstanding in 1958 or subsequent to 1963.)

Consolidated Financial Statements

Income and Retained Earnings

	For the year ended	
	December 31, 1965	December 31, 1964
Net sales	$436,369,101	$327,578,903
Operating costs and expenses		
Cost of goods and services sold	308,022,826	230,387,529
General, administrative and marketing	62,514,781	49,004,791
Employees profit sharing and retirement plans	19,364,743	13,478,536
Total	389,902,350	292,870,856
Profit from operations	46,466,751	34,708,047
Other income (net)	872,532	693,308
Interest on loans	(1,065,941)	(544,555)
	46,273,342	34,856,800
Provisions for income taxes, redeterminations and renegotiation (Note 5)	21,433,976	16,815,749
Net income	24,839,366	18,041,051
Retained earnings at beginning of year		
Company and subsidiaries	93,730,247	80,953,604
Geophoto companies (Note 1)	366,832	—
Cash dividends on common stock — 1965 — $1.00 per share; 1964 — $1.05 per share (including $.25 per share declared in 1964 and paid in 1965)	(5,045,956)	(5,264,408)
Retained earnings at end of year	$113,890,489	$ 93,730,247

Sources and Uses of Working Capital

	December 31, 1965	December 31, 1964
Sources of working capital		
Operations for the year		
Net income	$ 24,839,366	$ 18,041,051
Charges not involving use of funds		
Depreciation and amortization	19,257,231	14,104,670
Deferred incentive compensation, net	562,636	—
Total from operations	44,659,233	32,145,721
Proceeds (less expenses) from issuance of 4.80% sinking fund debentures due 1990	46,103,631	—
Long-term borrowing of overseas subsidiaries	2,127,526	—
Issuance of common stock under options	1,084,457	756,118
Other	317,035	(33,765)
	94,291,882	32,868,074
Uses of working capital		
Addition (net) to property, plant and equipment	44,090,456	22,949,675
Common stock of company reacquired for incentive compensation plan	1,442,366	—
Reduction of long-term debt	3,937,500	1,762,500
Cash dividends	5,045,956	5,264,408
	54,516,278	29,976,583
Increase in working capital	$ 39,775,604	$ 2,891,491

See accompanying notes

TEXAS INSTRUMENTS INCORPORATED AND SUBSIDIARIES

Balance Sheet

Assets	December 31, 1965	December 31, 1964
Current assets		
Cash and short-term securities	$ 59,594,427	$ 41,384,672
Accounts receivable	73,220,761	46,308,255
Inventories (Note 3)	64,750,649	44,817,551
Prepaid expenses	3,162,200	1,904,294
Deduct contract progress billings	(14,660,973)	(10,914,887)
Total current assets	186,067,064	123,499,885
Property, plant and equipment at cost (Note 4)	141,706,668	107,635,328
Less accumulated depreciation and amortization	59,806,101	50,625,945
	81,900,567	57,009,383
Other assets and deferred charges (Note 5)	2,857,692	348,052
	$270,825,323	$180,857,320

Liabilities and Shareholders' Equity	December 31, 1965	December 31, 1964
Current liabilities		
Loans payable (overseas subsidiaries)	$ 3,489,532	$ 3,818,026
Accounts payable	27,953,382	17,891,566
Income taxes, redeterminations and renegotiation	22,010,001	18,383,821
Accrued retirement and profit sharing contributions	19,359,876	13,558,239
Accrued expenses and other liabilities	14,343,172	9,706,248
Dividends payable	1,262,066	1,256,054
Current portion of long-term debt	—	1,012,500
Total current liabilities	88,418,029	65,626,454
Other liabilities		
Long-term debt (Note 6)	48,707,526	3,937,500
Deferred incentive compensation (Note 5)	1,081,992	—
Total other liabilities	49,789,518	3,937,500
Shareholders' equity		
Cumulative preferred stock, par value $25 per share; authorized 750,000 shares	—	—
Common stock, par value $1 per share; authorized 8,000,000 shares; issued: 1965 – 5,058,222 shares; 1964 – 5,024,215 shares (Note 7)	5,058,222	5,024,215
Additional paid-in capital (Note 8)	13,669,065	12,538,904
Retained earnings	113,890,489	93,730,247
Total shareholders' equity	132,617,776	111,293,366
	$270,825,323	$180,857,320

See accompanying notes

Notes to Financial Statements

NOTE 1 — ACQUISITION OF SUBSIDIARIES

In 1965, the company acquired all the outstanding shares of Geophoto Services, Inc. and Geophoto Services, Ltd. in exchange for 9,586 shares of its common stock. The acquisition has been treated as a "pooling of interests" for accounting purposes. The accounts of these companies, which are not material, have been included in the financial statements for 1965 only.

NOTE 2 — OPERATIONS OUTSIDE UNITED STATES

Approximately 20% of consolidated net sales for 1965 was from operations outside the United States and a similar percentage of net assets at December 31, 1965, was located in such areas.

NOTE 3 — INVENTORIES

Inventories, stated at the lower of cost (currently adjusted standard, average, or first-in, first-out) or market, were as follows:

	1965	*1964*
Raw materials and purchased parts	$ 18,788,531	$ 11,347,687
Work in process	38,009,404	28,089,171
Finished goods	7,952,714	5,380,693
	$ 64,750,649	$ 44,817,551

NOTE 4 — PROPERTY, PLANT AND EQUIPMENT

Major classes of property, plant and equipment were as follows:

	1965	*1964*
Land	$ 3,622,644	$ 2,777,434
Buildings and improvements	55,159,996	44,976,147
Machinery and equipment	82,924,028	59,881,747
	$141,706,668	$107,635,328

Capital expenditures in 1966 are expected to approximate $70,000,000. Projects for approximately one-half of this amount were in progress at December 31, 1965.

NOTE 5 — INCENTIVE COMPENSATION PLAN

Officers and key employees are eligible for awards in cash and/or common stock under an incentive compensation plan approved by shareholders in 1965. The plan authorizes the board of directors to establish an incentive compensation reserve which may not exceed the lesser of (1) 10% of the amount by which the company's net income (as defined) for such year exceeds 6% on net capital (as defined) or (2) the amount paid out as dividends on the common stock during the year. The amount computed under the formula for 1965 was $2,052,000. The amount reserved was $2,000,000, of which $1,849,497 was awarded. Of the amount awarded, $1,041,490 is distributable in cash and the balance is distributable in 5,579 shares of common stock valued at the average cost of all shares held for purposes of the plan. Against the amount awarded, cash payments of $423,860 and 2,041 shares of common stock were delivered in 1965. The balance of the amounts awarded is distributable in annual instalments over the next 4 years contingent upon being earned out by the participants. The portion of the awards distributable in cash in 1966 is included in accrued expenses and other liabilities and the remainder is included in deferred incentive compensation in the balance sheet. The estimated income tax reductions in future years for awards to be earned out have been included in other assets and deferred charges and prepaid expenses in the balance sheet, and the total, $614,660, has been deducted in determining the provision for income taxes in the statement of income. At December 31, 1965, the balance sheet includes under other assets and deferred charges the cost, $1,442,366, of 9,959 shares of the company's common stock purchased for awards under the plan.

NOTE 6 — LONG-TERM DEBT

Long-term debt consisted of the following at December 31, 1965:

4.80% sinking fund debentures due 1990; annual sinking fund payments of $2,500,000 commence in 1971 ($3,420,000 additional debentures issued in January 1966)	$46,580,000
Other notes payable due 1967 (overseas subsidiaries)	2,127,526
	$48,707,526

Previously existing long-term notes payable to insurance companies were retired in 1965.

NOTE 7 — STOCK OPTIONS AND RESERVATIONS OF COMMON STOCK

At December 31, 1965, 234,942 shares of common stock were reserved for then outstanding options (aggregate option price $12,979,265) under a shareholder-approved restricted stock option plan, of which 67,487 shares were then exercisable. These options are exercisable in various years through 1973 and exercise of the major portion is contingent upon attainment of specified earnings per share. This plan was terminated as to further grants in April 1965. During 1965, options on 17,613 shares (total consideration $796,685) were exercised and options on 7,100 shares were terminated.

In addition to the above, 3,302 shares were reserved at December 31, 1965, to cover options (aggregate option price $143,883) granted in 1959 pursuant to a merger agreement. These options expire in 1966 and 1968. In 1965, options on 6,808 shares were exercised for a total consideration of $287,772 and options on 2,740 shares were exercisable at year-end.

Also, at December 31, 1965, 300,000 shares of common stock were reserved under a qualified stock option plan for officers and key employees approved by shareholders in 1965, including 104,725 shares (aggregate option price $18,669,044) for then outstanding options and 195,275 shares for possible future grants. Options granted under this plan expire five years from date of grant and become exercisable over the last four years of the option term in percentage instalments, cumulatively, upon attainment by the company of defined earnings levels. No options were exercisable at December 31, 1965. During 1965, options on 375 shares were terminated.

NOTE 8 — CHANGES IN ADDITIONAL PAID-IN CAPITAL

During 1965, this account was increased $70,125 as the result of the acquisition of subsidiaries treated as a "pooling of interests" (Note 1) and $1,060,036, the excess of proceeds received over par value of 24,421 shares of common stock issued on exercise of stock options.

Accountants Report

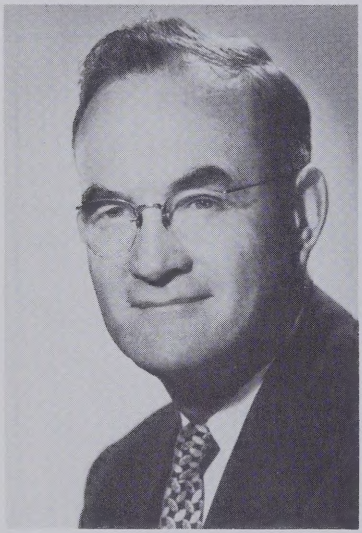
THE BOARD OF DIRECTORS,
TEXAS INSTRUMENTS INCORPORATED

We have examined the accompanying consolidated balance sheet of Texas Instruments Incorporated and subsidiaries at December 31, 1965, and the related consolidated statements of income and retained earnings and of sources and uses of working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. It was not practicable to confirm certain accounts receivable, as to which we satisfied ourselves by means of other auditing procedures.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Texas Instruments Incorporated and subsidiaries at December 31, 1965, the consolidated results of their operations, and sources and uses of their consolidated working capital for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG & COMPANY

Dallas, Texas
February 10, 1966



Cecil H. Green retired as a vice president of Texas Instruments Incorporated, December 31, 1965. He will continue to make further valuable contributions as a member of the board of directors. Mr. Green joined TI's predecessor company, Geophysical Service, in 1930. He has served as president of GSI from 1951 to 1955, chairman of the board of directors of GSI from 1955 to 1959, and honorary chairman of the board of GSI since 1959.

Directors

J. E. Jonsson
Lloyd V. Berkner
Cecil H. Green
P. E. Haggerty
S. T. Harris
Ewen C. MacVeagh
Eugene McDermott
Mark Shepherd, Jr.
C. J. Thomsen

Officers

J. E. Jonsson	*Chairman of the Board*
P. E. Haggerty	*President and Chief Executive Officer*
Mark Shepherd, Jr.	*Executive Vice President*
S. T. Harris	*Senior Vice President — Corporate Development*
W. F. Joyce	*Senior Vice President — Operations Service*
C. J. Thomsen	*Senior Vice President — Organization & Management Systems Development*
J. F. Bucy	*Vice President — Apparatus*
Cecil P. Dotson	*Vice President — Semiconductor-Components*
R. C. Dunlap, Jr.	*Vice President — Science Services*
R. W. Olson	*Vice President — Special Projects Office*
Jay R. Reese	*Vice President — TI Supply Co.*
Bryan F. Smith	*Vice President — Finance and Secretary*
E. O. Vetter	*Vice President — Materials & Controls*
H. J. Wissemann	*Vice President — Corporate Research & Engineering*
Richard J. Hanschen	*Assistant Vice President — Semiconductor-Components*
Ronald F. Keener	*Assistant Vice President — Science Services*
Howard Moss	*Assistant Vice President — Semiconductor-Components*
A. Normand Provost	*Assistant Vice President — Semiconductor-Components*
James R. Reese	*Assistant Vice President — Semiconductor-Components*
George E. Livings	*Treasurer*
Sol Goodell	*Assistant Secretary*
Nelle C. Johnston	*Assistant Secretary*
William J. Roche	*Assistant Secretary*

Stock Transfer Agents

Common Stock	Registrar and Transfer Company, Republic National Bank of Dallas

Registrars

Common Stock	Morgan Guaranty Trust Company of New York, First National Bank in Dallas

Common Stock Listed on New York Stock Exchange

ANNUAL SHAREHOLDERS MEETING

The 1966 Annual Meeting of shareholders of Texas Instruments Incorporated will take place at 10 a.m. (CST), April 20, in the Central Cafeteria at 13500 North Central Expressway, Dallas, Texas.

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